Colorado Department of Local Affairs

Severance Tax Credit Study Group Meeting
Thursday, September 4, 2008, 1:00 pm
CCI Conference Room
800 Grant Street, Suite 500

PARTICIPANTS

Jamee Allen, Freeport-McMoran (Climax-Henderson Mines)	Steve Loshbaugh, Meeker County (by phone)
Rich Atkinson, Rio Tinto/Colowyo Mine	Jonathan Marks, DOLA
Kevin Bommer, CML	Chris Mendez, CCI
Garin Vorthmann, COGA (by phone)	Carl Miller, Advisory Committee
Steve Colby, DOLA	Scott Olene, DOLA
Bruce Eisenhauer, DOLA	Dianna Orf, CMA
Tony Hernandez, DOLA	Ken Parsons, CCI/RBC
Andrew Harper, George K. Baum & Co.	Pam Roth, William Companies
Doug Houston, George K. Baum & Co.	Jim Schroeder, Mesa Energy Partners
Kevin Knoll, Freeport-McMoran (Henderson Mine)	Cynthia Thayer, DOLA

Standing in for Director Kirkpatrick, Tony Hernandez, Division of Local Government, called the meeting to order at 1:00 pm. Introductions were made all around.

A brief review and history of the credit was given. The objective of the group is to craft a tool that uses the credit. Also, the new grants policy of tiers was noted, with the last providing grants as large as $10 million.

The fact that new bills mandate metrics to measure impact to distribute funds more accurately and fairly was mentioned, as well as the need for partnership between government and industry.

Energy Industry's Perspective on Severance Tax Credit Tool

Pam Roth, from Williams Energy said that the Severance Credit is an opportunity for industry to partner with local government when a project benefits both. There is a concern that the credit would take funds away from Direct Distribution and the grant program while those who use the credit would see reduced access to grants.

Corporations do not want to be caught in arguments between local governments over project funding. They [corporations] are awaiting a consensus between local governments before acting.

Other comments:

- The credit needs to be available in amounts that address impact.
- The credit needs to be clear in administration and policy.
- Local Governments who receive credits should not be penalized in grant access.
- Credit should be on taxpayer rather than “operation”
- Multiple taxpayer cooperatives should be encouraged.
- Update statute to define project and period of analysis.
- A broad range of local entities should qualify: school districts, special districts, etc.
- Provide a standardized agreement form with stipulations.

Discussions supported cleanup modification and review.

Rich Atkinson, from Rio Tinto Energy/Colorado Mining Association said the Severance Credit was designed for mines. Oil and Gas is a big revenue source. Our relation to communities is different from Oil and Gas. He said that prior mine credit projects between the mines and local communities never got involved in credit use project selection, and deferred to local cooperation and prioritization.

“Increased production” did not necessarily mean more impact, as needs came early on before taxes. The new DOLA tiers reduce the need for the credit to front-end finance.

The credit worked well to build local partnerships between the mines and local communities.

A question was posed about what makes a credit “worthwhile” for industry.

Stan Dempsey, from the Colorado Petroleum Association answered that the credit needs to benefit both government and industry. Grants may only benefit government. The credit needs to be bigger to meet needs.

The original intent of the credit was to put risk on industry, but the industry is already taking a big risk.

Jim Schroeder from Mesa Energy added that we need to define use of the credit and process for selection. Ken Parsons from CCI mentioned it was Garfield County’s concern that the credit would count against grants access.

It was suggested that the projects should be regional in nature and not count against grants access.

The discussion then centered on whether the credit is the tool the group wants. Various comments included that the tool and credit are needed; the exercise of the credit should be limited to a percentage of the liability each year to reduce the hit in any year.

How would a new credit statute look?

- New
- Cohesive
- Types of projects
- Multi-jurisdiction priority
- Reporting verifiable mechanism

There is confusion between the Oil and Gas Industry on who is liable for the severance tax and cannot therefore use the credit (producer and mineral interest owner).

Should there be a minimum amount of credit? The group responded in favor of tiers. Now that the larger corporations are coming back, there is a need to facilitate both small and large. Flexibility is needed to encourage participation, but a limit should be set on the maximum severance credit. However, discussion centered on the fact that since many roads infrastructure needs alone are currently so large in impact to Northwest Colorado that a max credit size may not be useful.

Members of the group also wondered if the Tier III grants would be able to address most needs. Also, an administrative case-by-case limit is better than a requirement in statute.

A question was posed as to whether or not Oil and Gas producers can claim a credit against severance liability elsewhere in the state.

DOLA will send out the proposed statute modernization and statement that the group needs larger reform proposals. Please provide suggestions to Tony Hernandez.

At the next meeting, the group will begin looking at design specific options: modernization, reform, repeal/ignore and other financing tools.

Next meeting is on **October 1, 2008 from 1-4 pm.**

The meeting will be held at the offices of the
Colorado Municipal League (CML), 1144 Sherman Street.